



Banking: Market eyes consolidation

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A fresh round of consolidation looks imminent as Greece's leading banks prepare to do battle over Postal Savings Bank, a special credit institution to be sold under the privatisation programme.

PSB's deposit base of €9bn is one of the country's largest while its loan book is a modest €1.5bn - mainly mortgage loans to public sector employees. Assets also include a €7bn bond portfolio, mainly in high-yielding issues approaching maturity.

A 34 per cent stake in PSB would be offered to a strategic investor who would take over management. But only the big three banks, National Bank of Greece, Alpha Bank and EFG Eurobank, have the financial strength to bid.

"We're not indifferent to this disposal," says Theodore Karatzas, NBG's governor. Even if a merger proved too difficult at first, NBG, like its rivals, would welcome the opportunity to channel retail banking products through a second branch network.

Meanwhile, four smaller domestic banks have shown interest in acquiring a strategic stake in General Bank, which has assets of €3bn and is controlled by the Army Pension Fund.

The government is making a second attempt at privatisation, after an unsuccessful attempt last year to lure a buyer from abroad.

However, international institutions have snapped up equity in Greek banks offered through an accelerated bookbuilding process. The government raised €488m from the sale of 11 per cent of NBG, the country's biggest financial group. Alpha, the biggest private bank, sold an 8.6 per cent stake for €273m. Both offerings were more than twice subscribed.

With the economy set for another year of robust growth, confidence is high. Unemployment has been falling and consumer demand is buoyant. Banks saw first-half profits rebound - thanks to a sharp increase in income from core operations and the impact of cost-cutting measures launched last year.

Retail lending continues to drive the Greek market, although the pace of growth is less hectic this year. Mortgage lending is projected to increase by about 20 per cent, against 36 per cent last year and 39 per cent in 2001.

Historically low interest rates, coupled with a nationwide surge in housing prices that has mainly affected

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first-time buyers, are fuelling demand.

Consumer credit and borrowing by small and medium-sized businesses, which until recently had comparatively little access to bank finance, is growing at slower rates.

"The mortgage market is slowing, but we believe it can sustain growth of 13 to 14 per cent over the next three to four years. Greece is still underbanked compared with the rest of the eurozone," says Nikos Nanopoulos, managing director of EFG Eurobank, part of the Geneva-based Latsis oil, shipping and finance group.

Mortgage lending amounts to 12 per cent of gross domestic product, compared with an EU average of 40 per cent. Consumer credit is 6 per cent of GDP, against 11 per cent for the EU, according to Moody's, the international ratings agency.

Competition is fierce, with NBG, Alpha and Eurobank respectively controlling 19 per cent, 17 per cent and 14 per cent of the lending market. As a result, operating efficiency has shown a marked improvement.

"We started looking at products and priced them according to the true cost. Then we came up with as many new products as we could and applied the same process," says Marinos Yannopoulos, Alpha's chief financial officer. "This year we've kept costs almost flat."

The sharpening competition for market share also raises concerns about increased risk.

While credit controls at the big banks are in line with international standards, smaller Greek banks are poorly equipped to monitor consumer loans.

Greece's central bank this year lifted the €23,000 ceiling on individual consumer borrowing that had helped to contain credit risk. It has also tightened regulations on provisioning. Delay in launching a centralised credit bureau has underlined gaps in the system.

The existing database provides information on whether bank customers have defaulted on loans in the past, but does not record total borrowings. Banks' refusal to share their current customer databases means the centralised bureau will cover only new applicants for loans.

However, the appetite for winning new business also extends to operations beyond Greece. After following their corporate customers to the Balkans during the 1990s, banks are turning to the domestic market. NBG, Alpha and Eurobank have all launched retail products in Bulgaria, Romania and Serbia through local subsidiaries or branch networks.

Lending to small and medium-sized business is increasing as the region starts to show sustained economic growth.

The three banks have also followed developments in Turkey, potentially the most lucrative regional market. Next month, Greece and Turkey will mark another stage of rapprochement by signing a treaty to avoid double taxation - seen as a catalyst for furthering bilateral investment.

NBG follows the restructuring of Turkey's banking sector from a representative office in Istanbul. Mr Karatzas believes it may soon be time to make a move: "Turkey is emerging from a period of instability and it may be our next objective. It's our biggest neighbour and the most interesting from the economic

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point of view," he says.

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